



1999 *nineteen ninety-nine*



Ginnie Mae Annual Report
Government National Mortgage Association

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Ginnie Mae's Mission

To support expanded affordable housing in America by providing an efficient government-guaranteed secondary market vehicle linking the capital markets with federal housing markets.

“Ginnie Mae has been the leader in securitizing
federally-sponsored home loans for more than three
decades, and its Mortgage-Backed Securities program
is one reason why the American homeownership rate
hit a record high of 66.8 percent in 1999. All of us can
be proud that Ginnie Mae has helped more than 24.5
million American families find their piece of the
American Dream.”

—Secretary Andrew Cuomo





The Honorable Andrew Cuomo
Secretary
United States Department of Housing and Urban Development
Washington, DC 20410

Dear Mr. Secretary:

I am pleased to present to you the audited financial statements of the Government National Mortgage Association (Ginnie Mae) for the fiscal year ended September 30, 1999. Ginnie Mae, once again, received an unqualified opinion from its independent auditors, KPMG LLP, with no findings of material weaknesses or reportable conditions. Ginnie Mae continues to grow stronger and improve its internal control environment.

During fiscal year 1999, Ginnie Mae reached over \$1.5 trillion in original issues of mortgage-backed securities guaranteed since 1970. We are quite proud of our continuing accomplishments and our role in the Department's commitment to supporting affordable homeownership for low- and moderate-income families in America.

Our strong financial performance continued in fiscal year 1999. Operating results for fiscal year 1999 exceeded historic performance levels. At year end, our mortgage-backed securities outstanding totaled \$569.6 billion, a \$27.4 billion or 5 percent increase from fiscal year 1998. Ginnie Mae's net revenues were \$746.8 million in fiscal year 1999, an 11 percent increase and record high, as compared to \$674.7 million in fiscal year 1998. Ginnie Mae's mortgage-backed securities program guaranteed the issuance of \$163.5 billion in mortgage-backed securities last year, thereby providing capital for the purchase or refinance of approximately 1.8 million homes, including multifamily units. Over its lifetime, Ginnie Mae's mortgage-backed securities have financed homeownership opportunities for 24.5 million American families.

Ginnie Mae made great strides in fiscal year 1999 in ensuring Year 2000 compliance throughout its organization and those entities substantially associated with Ginnie Mae. Ginnie Mae's Year 2000 contingency plans, which subsequently proved to be successful, were developed and tested to reduce the risk of business disruption in the event of Year 2000 induced failures. In fiscal year 1999, Ginnie Mae received Year 2000 compliance certification from 100 percent of its participating issuers.

Ginnie Mae continues to fulfill its mandate to promote access to mortgage credit throughout the nation by increasing the liquidity of investment capital available to the residential mortgage finance market. Ginnie Mae's Targeted Lending Initiative not only seeks, but has proven to be tremendously effective in helping to increase homeownership levels in targeted central city communities by bringing additional investment funding to designated targeted lending areas. In fiscal year 1999, 15 additional communities were added to the existing 72 targeted lending areas. In addition, communities with a significant Native American population also became eligible. In fiscal year 1999, \$5.2 billion in targeted lending pools were issued.

By continuing to incorporate technology, Ginnie Mae has enhanced its efficiencies and capabilities. The World Wide Web has become an essential communications channel for educating and informing our customers and the public. In fiscal year 1999, Ginnie Mae added an educational section for children and teens to its Web site. These pages are designed to teach young people, in an entertaining way, about the benefits of homeownership, thrift, and saving. The Ginnie Mae Business Center centralizes and provides a substantial improvement in training capability and capacity for our issuers. The newly implemented Electronic Data Interchange provides a method of transferring data, and offers substantial promise to realize additional efficiencies in how Ginnie Mae conducts its business.

Ginnie Mae REMIC and Platinum programs continue to be successful, and they are playing a major role in increasing liquidity and the availability of mortgage funds to low- and moderate-income and first-time homebuyers. These programs grew to record their highest ever income and production levels for fiscal year 1999. Ginnie Mae will continue product innovation, program enhancements, investor education, and competitive pricing to ensure that the increased liquidity and efficiencies gained in the capital markets by the multiclass securities program are maintained.

Our business processes and initiatives, organizational structure, and technology improvements are the hallmark of the new Ginnie Mae. Ginnie Mae's commitment and presence in the capital markets provide continuous opportunities for efficiencies, economies of scale, and further refinement of the infrastructure that encourages the achievement of our mission.

We are proud of our continued accomplishments as part of the Department's historic role in helping to make the American dream of homeownership a reality for millions of low- and moderate-income American families.



Sincerely,

A handwritten signature in dark ink that reads "George S. Anderson". The signature is fluid and cursive.

George S. Anderson
Executive Vice President
Ginnie Mae



I. Overview of Ginnie Mae

The Government National Mortgage Association (Ginnie Mae) *through its full faith and credit of the United States guaranty* has helped to finance homeownership opportunities for 24.5 million American families. Ginnie Mae guarantees the timely payment of principal and interest on securities issued by private institutions and backed by pools of Federally-insured or guaranteed mortgage loans. In fiscal year 1999 Ginnie Mae-guaranteed securities provided the financing for approximately 87 percent of all loans insured or guaranteed by the: Department of Housing and Urban Development (HUD); Federal Housing Administration (FHA); the Department of Veteran Affairs (VA); the Rural Housing Service (RHS); and the HUD Office of Public and Indian Housing (PIH). Ginnie Mae receives no funds from general tax revenues with operations financed by Guaranty Fees, New Issuer Fees, Commitment Fees, Handling Fees, and Transfer of Servicing Fees. Over 95 percent of Ginnie Mae's fee income is generated by its Guaranty and Commitment Fees that are paid by participating issuers.

Ginnie Mae was created during a period of rapid change in the mortgage finance industry, in 1968, through an amendment of Title III of the National Housing Act. Ginnie Mae, a wholly-owned government corporation within the Department of Housing and Urban Development, was established to support

Federal housing initiatives by providing liquidity to the secondary mortgage market by attracting capital from the Nation's capital markets into the residential mortgage markets. From this dynamic environment, Ginnie Mae emerged as a pioneer with the development of the Mortgage-Backed Securities (MBS) program. MBS issued under this program provide a vehicle to efficiently and effectively generate capital by providing lenders with the liquidity to maintain a steady supply of credit available for housing. The Secretary of Housing and Urban Development and the President of Ginnie Mae, both of whom are appointed by the President of the United States and confirmed by the United States Senate, oversee the operations of Ginnie Mae.

Today, the mortgage finance industry faces new challenges that demand creative leadership and innovative solutions. Ginnie Mae has repositioned itself to meet new market challenges while playing a pivotal role in achieving the Department's goal of providing low-cost mortgage credit to traditionally underserved sectors of the housing market. Ginnie Mae's mission, goals, and related accomplishments for fiscal year 1999 are discussed in more detail in this report.

II. Corporate Goals

Ginnie Mae's mission and strategic vision have been captured in three overarching goals. These goals guide the organization in the prioritization of its resources and activities to focus on outcomes rather than outputs and processes. The goals to which Ginnie Mae holds itself accountable are stated below.

Goal 1: Excellence in Customer Service

Ginnie Mae will provide excellent service to its customers. "Customers" shall include program participants (e.g., issuers and investors) and other stakeholders (e.g., homeowners and prospective homeowners, taxpayers, securities holders, the Federal Housing Administration, the Department of Veteran Affairs, the Rural Housing Service, and the HUD Office of Public and Indian Housing).

Goal 2: Leadership Role in the Industry

Ginnie Mae will play a leadership role in the affordable lending marketplace. Leadership includes taking action to increase affordable homeownership and rental housing nationwide through the introduction of new products and expansion of affordable mortgage credit.

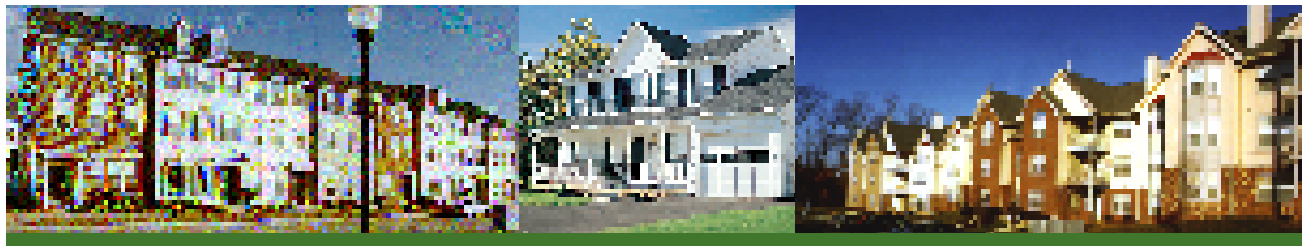
Goal 3: Integrity and Excellence in Financial Management

Ginnie Mae will manage its financial risk.



III. Process, Infrastructure, and Technology Improvements

As part of our commitment to excellence in customer service, during fiscal year 1999, Ginnie Mae continued to build its infrastructure to improve services and provide communication to issuers and other program participants. After completing its first round of “Opportunities for Improvement” in fiscal year 1996, Ginnie Mae continued to improve and streamline its operations in fiscal years 1997 through 1999. Ginnie Mae



streamlined its processes and provided greater flexibility in its guidelines and regulations to meet its goals. The resulting efficiencies are providing substantial savings to the mortgage market.

Organizational Structure

Beyond the process improvements, Ginnie Mae’s organizational structure enables Ginnie Mae to be effective in responding to change, to focus resources on mitigating and managing its business risks, to provide improved customer service to issuers, and to improve contractor oversight.

The Office of Customer Service continues to provide a valuable service for Ginnie Mae customers and is dedicated to fulfilling its goal of providing a single point of contact with the issuer community. The Account Executives, charged with achieving this goal, are continually striving to assist our customers while maintaining the integrity of the overall Ginnie Mae mortgage-backed securities program. The Office of Customer Service stays abreast of industry trends to better understand our customers’ concerns and suggestions. It also promotes leading edge approaches to doing business in the dynamic secondary mortgage market. To that end, the Office of Customer Service

was instrumental in promoting the highly successful Targeted Lending Initiative and participating in industry forums on how to conduct business more effectively and lower the financing costs to low- and moderate-income homebuyers.

The Office of Finance maintains management and operational internal controls for Ginnie Mae; ensures compliance with the reporting requirements of the Federal Financial Managers’ Integrity Act and the Chief Financial Officers Act; provides accounting and financial reporting services; manages the investment of Ginnie Mae funds; prepares and monitors the execution of Ginnie Mae’s budget; and oversees the manage-

ment of acquired defaulted assets. The Office of Finance also coordinates the independent audit of Ginnie Mae, monitors financial risk, and manages and coordinates field audits and reviews of master subservicers and major contractors to minimize risk to Ginnie Mae. The Office of Finance is the liaison between Ginnie Mae and HUD’s Inspector General, the Office of Management and Budget, the General Accounting Office, the U.S. Department of the Treasury, and the U.S. Congress.

The Office of Multifamily Programs serves as Ginnie Mae’s single point of contact for issuers concerning their participation in Ginnie Mae’s multifamily programs. The Office has responsibility from inception through termination in multifamily matters, ranging from approving issuers through the disposition of the defaulted assets.

The Office of Policy, Planning, and Risk Management evaluates the effectiveness of Ginnie Mae’s programs and products. The Office assists in institutional policy formulation and product development; identifies business risks and develops controls and strategies for mitigating them; develops and tracks progress against strategic and annual business plans; and identifies staff development needs and training programs to meet those needs. In addition, Capital Markets customers have

direct access to Ginnie Mae's Capital Markets Division, where expertise in mortgage securities markets is available. Ginnie Mae's New York office was established to improve communications between Ginnie Mae and the investment community. The opening of this office furthers our Capital Markets strategy of keeping in closer contact with our securities customers on Wall Street.



The Office of Program Administration provides day-to-day operational support for the MBS programs. The Office oversees the processing of a variety of actions initiated by Ginnie Mae's customers, manages and directs the activities of several major contractors that support Ginnie Mae's program operations, and coordinates all Information Technology initiatives for Ginnie Mae through Ginnie Mae's Chief Information Officer.

Ginnie Mae Technology and Customer Service

Ginnie Mae is committed to serving the needs of both home-buyers and private sector business partners and offering the best possible customer service to its program participants and issuers. Following are some examples of the ways in which Ginnie Mae has been using technology and customer service to improve the day-to-day business operations for its issuers.

Preparation for the Year 2000

Ginnie Mae Year 2000 Readiness

Ginnie Mae was committed to ensuring that the safety and soundness of Ginnie Mae's MBS programs were not disrupted

due to Year 2000 induced problems. Ensuring Ginnie Mae's Year 2000 readiness was one of our top priorities. Ginnie Mae's approach to readiness centered on the core activities of:

- Information Systems Remediation;
- Integrated Systems Testing;
- Industry Leadership and Coordination;
- Business Contingency Continuity Planning; and
- Readiness Training, Drills, and Exercises.

Ginnie Mae successfully completed the remediation of its core business systems in 1998. These systems were thoroughly tested individually and with Ginnie Mae's business partners in a Year 2000 simulated environment. After testing, a third party reassessment was conducted to assure Year 2000 readiness. Ginnie Mae has received certification of Year 2000 compliance from 100 percent of its issuer participants indicating their readiness to operate in 2000 and beyond, including the development of contingency plans. Further, Ginnie Mae sponsored and participated in industry working forums which enabled participants to provide input to Ginnie Mae business continuity contingency plans and receive feedback from Ginnie Mae in support of their own planning. Ginnie Mae's contingency plans were designed to reduce the risk of business disruption in the event of Year 2000 induced failures. These contingency plans were in place.

Ginnie Mae's Year 2000 strategy and plan for implementation focused on the steps necessary to safeguard Ginnie Mae's business functions and define expectations for its business partners.

Ginnie Mae Year 2000 Strategy

Initially, all Ginnie Mae business functions were reviewed to identify programmatic and financial risks. This assisted Ginnie Mae in specifically identifying the mission critical functions that required active management attention. Additionally, Ginnie Mae business partner organizations were tasked with remediation and testing of Year 2000 dependent systems, and for developing Year 2000 business continuity contingency plans on behalf of Ginnie Mae to cover the operations under their contractual obligation.

Information Systems Remediation

Ginnie Mae's remediation efforts were completed by September 30, 1998.

Integrated Systems Testing

The interdependency of the mortgage finance industry is one of Ginnie Mae's greatest risks. Because of this, Ginnie Mae strongly encouraged its business partners to participate in the Mortgage Bankers Association (MBA) Year 2000 Preparedness test to assist in mitigating this risk.

Internal Testing: Ginnie Mae renovated or replaced all of its process application systems and completed unit and end-user testing. Ginnie Mae has also reviewed and upgraded its technology infrastructure, e.g. local area networks and desktop computers where appropriate.

External Testing: In order for Ginnie Mae to ensure a high level of uninterrupted service, its external business partners needed to be Year 2000 ready. In February 1999, Ginnie Mae issued an All Participants Memorandum (APM) requesting all issuers of Ginnie Mae mortgage-backed securities to certify that appropriate action had been taken to assure that they would continue to meet all Ginnie Mae requirements in the new century. One hundred percent of Ginnie Mae's issuers and strategic business partners provided certification as to their Year 2000 readiness.

Industry Leadership and Coordination

Ginnie Mae was an active participant in the design and development of the MBA Year 2000 Preparedness test. Ginnie Mae strongly encouraged its issuer community to participate in the test. As a result, the issuer population confirmed their ability to operate within a Year 2000 operating environment.

The data transactions created by the issuer community were used within the HUD Integrated Year 2000 testing. This round of testing was required to ensure that all of HUD's systems communicating with the external business partners would be able to operate within a Year 2000 environment. Ginnie Mae completed the Integrated Testing with all systems testing successfully.

Business Contingency Continuity Planning

Ginnie Mae established business continuity contingency plans

for all mission critical operations. This prepared it to manage unexpected problems relating to the century date change and other potential business disruptions. Ginnie Mae's business continuity contingency plans were an integral part of Ginnie Mae's Year 2000 preparedness. Ginnie Mae's Year 2000 management team defined the requirements for critical process continuity plans, and directed its program managers and business partners to integrate these plans into their preparedness activities and testing.

Readiness Training, Drills, and Exercises

On September 1, 1999 Ginnie Mae conducted a Year 2000 test and drill for its internal staff. This enabled staff to exercise the contingency plans and identify areas of improvement. On September 29, 1999, Ginnie Mae conducted a tabletop exercise with its business partners. This session provided an opportunity for Ginnie Mae and its strategic service providers to review how potential Year 2000 failures would be managed. These efforts led to a full Year 2000 drill. This effort included Ginnie Mae management, staff and strategic service providers. During these two days, a number of Year 2000 failures were simulated enabling the enterprise-wide response team to interact and to ensure contingency plans satisfied their stated objectives. In addition to the drills and exercises, Ginnie Mae staff engaged in training workshops to clearly define responsibilities and expectations in the execution of contingency operations.

Communications

Ginnie Mae communicated to its customers its Year 2000 readiness requirements and status through APMs, single and multi-family bulletins, its corporate Web site, newsletters and other communications.

As a result of the above preparation, Ginnie Mae successfully transitioned into the new millennium.

Ginnie Mae I MBS

Ginnie Mae I MBS are based on single-issuer pools and are Ginnie Mae's most heavily traded MBS product. The underlying mortgages generally have the same or similar maturities and the same interest rate on the mortgages. Single family Ginnie Mae I pools have a 50 basis point (0.5 percent)

guaranty and servicing fee. Ginnie Mae I payments are made to holders on the 15th day of each month.

The securitization provisions are established in detail in the Ginnie Mae MBS Guide (Ginnie Mae's Handbook 5500.3). The Handbook can be found on Ginnie Mae's Web site (www.ginniemae.gov).

Ginnie Mae II MBS

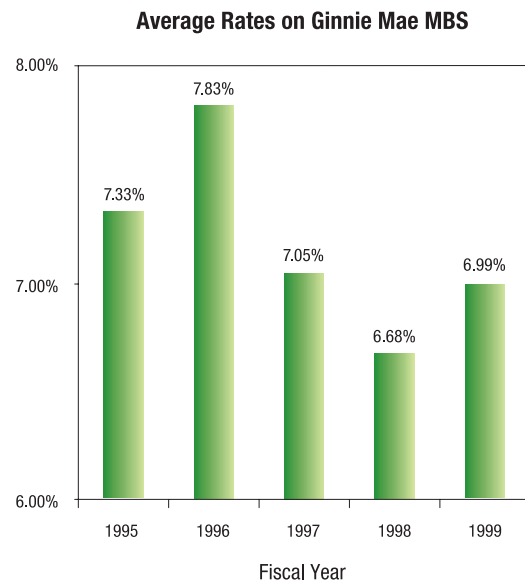
Ginnie Mae II MBS have become a useful tool for "pipeline" management for our issuers. Ginnie Mae II MBS provide additional flexibility and liquidity. For example, these securities permit greater flexibility with respect to loan characteristics: coupon rates on the underlying mortgages can vary between 50 and 150 basis points above the interest rate on the pool.

Multiple-issuer as well as single-issuer pools are permitted in these securities. The Ginnie Mae II MBS also allows small issuers who do not meet the minimum dollar pool requirements of the Ginnie Mae I MBS to participate in the secondary mortgage market. The Ginnie Mae II MBS have a central paying and transfer agent which collects payments from all issuers and makes one consolidated payment each month to each security holder. Ginnie Mae II MBS pay on the 20th day of each month.

An issuer may participate in the Ginnie Mae II MBS either by issuing custom, single-issuer pools or through participation in the issuance of multiple-issuer pools. A custom pool has a single issuer which originates and administers the entire pool. A multiple issuer pool typically combines loans with similar characteristics. The resulting pool backs a single MBS issue and each participant is responsible for administering the mortgage loans which it contributes to the pool. The securitization provisions are set forth in detail in the Ginnie Mae MBS Guide (Ginnie Mae Handbook 5500.3), which can be found on Ginnie Mae's Web site (www.ginniemae.gov).

Ginnie Mae MBS are created when mortgage loans are pooled by eligible issuers. Commonly referred to as "pass-through" certificates, these MBS entitle an investor to an undivided interest in the underlying mortgage loan pool. Thus, an investor receives a pro rata share of the interest (net of serv-

icing and guaranty fees) and principal on the underlying mortgage loans. Through its MBS program, Ginnie Mae increases the liquidity and efficiency of mortgage loan funding, making more capital available to low- and moderate-income homeowners at competitive interest rates. The following represents the average rates on Ginnie Mae MBS during the last five years.



GinnieNET 2020

GinnieNET 2020 is Ginnie Mae's primary network for conducting business with its customers. Over the past several years, Ginnie Mae, with input from its business partners, has developed a delivery system that supports multiple applications. This system enables GinnieNET users to reduce their cost annually by:

- Reducing warehouse lines;
- Eliminating mailing costs; and
- Reducing or eliminating paper handling.

Pool processing time has been reduced to two business days for Ginnie Mae I pools and Ginnie Mae II custom pools and three business days for multiple-issuer pools.

Ginnie Mae's latest release of GinnieNET 2020, version 5.2 (GinnieNET 5.2) provides issuers and document custodians with the ability to transact business with Ginnie Mae in an electronic environment in the following areas:

- Submission of pool documents to Ginnie Mae's Pool Processing Agent for the issuance of Ginnie Mae securities backed by FHA, VA, RHS, and Native American loans;
- Execution of pool final certifications and recertifications;
- Reporting of issuer monthly remittance information for Ginnie Mae I security holders, form HUD 11714, will be provided to the Ginnie Mae depository, The Depository Trust Company;
- Submission of issuers' monthly summary accounting information, form HUD 11710D, to Ginnie Mae for pools backing Ginnie Mae securities;
- Execution of requests for the release of documents, form HUD 11708, submitted to the document custodian;
- Submission of quarterly custodial account certifications to Ginnie Mae; and
- Submission of remaining principal balances (RPB) reports to Ginnie Mae's Pool Reporting Agent.

With each release of GinnieNET that provides new functionality, Ginnie Mae provides GinnieNET training for issuers and document custodians. GinnieNET 5.2 is evidence of Ginnie Mae's commitment to provide state-of-the-art technology for its business partners. Ginnie Mae continues to leverage its existing technology to make its business processes more efficient. These improvements benefit both Ginnie Mae and its customers.

Ginnie Mae Web Site

The Ginnie Mae Web site (www.ginniemae.gov) provides issuers, home buyers, mortgage finance industry participants, securities investors, and all other interested parties with general information about the Ginnie Mae MBS Program. The site also provides online access to the Ginnie Mae's Mortgage-Backed Securities Guide 5500.3, as well as APMs issued by Ginnie Mae within 24 hours of their release. A search engine was added to the site to allow keyword searches. The Ginnie Mae Web site serves as a quick and efficient communications tool to keep program participants informed about the latest industry news

and developments. In fiscal year 1999, Ginnie Mae added a section for children and teens to its Web site. These pages are designed to teach young people, in an entertaining way, about the benefits of homeownership, thrift, and saving.

The Electronic Data Interchange (EDI) Program

The successful implementation of EDI for issuers has further increased Ginnie Mae's efficiency and effectiveness in the quarterly investor reporting process. Issuers that have implemented EDI are now able to use the same transaction set for investor reporting to Ginnie Mae, Freddie Mac, and Fannie Mae. Apart from the reduction of paper and other physical media, issuers receive faster feedback on the success of submissions, and information about problems with reported data before the next quarterly cycle.

Ginnie Mae implemented a Web-based EDI solution in March 1999. For its smaller volume issuers, this application allows issuers to submit and make corrections to their quarterly loan level reports over the Internet using a standard Web browser. The Web-EDI application is available on Ginnie Mae's Web site at http://www.ginniemae.gov/web_edi/home.htm or by following the links from the Ginnie Mae Web site at www.ginniemae.gov.

Ginnie Mae's Commitment to Customer Service

Ginnie Mae account executives are available by phone to help its customers with a variety of issues.

- Single Family MBS
Issuer Contact: (202) 708-1535
- Multifamily MBS Issuer Contact: (202) 708-2043
- Manufactured Housing MBS Issuer Contact:
(202) 708-1535
- Ginnie Mae Capital Markets Contact: (202) 401-8970
- GinnieNET and gREX Customer Service Contact:
(800) 234-GNMA
- Ginnie Mae Hotline: (888) GINNIE4



The hotline supports help desks from the following programs: EDI, The Issuer Information System and Bulletin Board System, the Web site, the Soldiers' and Sailors' Civil Relief Act, Issuer Verification Forms, Remaining Principal Balance, and Year 2000 issues.



IV. Ginnie Mae Initiatives

In response to the rapidly changing market in mortgage finance, Ginnie Mae has increased its efforts to bring new products to the marketplace. Through leadership in the mortgage markets, Ginnie Mae seeks to offer its customers the highest quality advice, service, and securities marketplace execution in transactions. Ginnie Mae's objective is to make a gradual shift in its business mix to increase the number of sponsors and stability of volume growth. Within this context, Ginnie Mae plans to introduce new lines and expand existing products. These distinctive product lines attract customers.

In 1998, Ginnie Mae established the Ginnie Mae Capital Markets New York Office to enhance its ability to serve its customers. Ginnie Mae decided to open the New York Office to secure a permanent presence in close proximity to many of its customers and to embrace the opportunities in its industry. In fiscal year 1999, Ginnie Mae completed staffing its New York office. Ginnie Mae continues its unqualified commitment to the Capital Markets.

Multiclass Products

In 1999, Ginnie Mae's Capital Markets Division demonstrated its fundamental strength in a challenging business environment, in a year in which capital markets experienced several external shocks which affected all non-Treasury securities, including mortgage securities. The first quarter of fiscal year 1999 saw increased credit spreads and illiquidity of securities



across the board. Ginnie Mae's *full faith and credit guaranty* is important to investors during times of market crises, as buyers of Ginnie Mae MBS know that scheduled interest and principal is guaranteed by the full faith and credit of the United States Government. With issuance volume at record levels, Ginnie Mae has worked with its customers to help them capitalize on their opportunities.

The volume of Real Estate Mortgage Investment Conduit (REMIC) securities issued by Ginnie Mae grew significantly in fiscal year 1999, another record year and the fifth consecutive year of volume increases. Total multiclass fee income increased 46 percent over the prior fiscal year. Ginnie Mae guaranteed 35 REMIC transactions in 1999, totaling \$19.7 billion. Ginnie Mae also continued to build a strong position in REMIC issuance on a global basis by offering the flexibility of the MX (modifiable and exchangeable) option to its REMIC Sponsor group. In August 1999, Ginnie Mae closed its largest REMIC transaction ever, REMIC 1999-29 at \$1.8 billion,

which made a substantial contribution to the liquidity of Ginnie Mae MBS.

The Ginnie Mae Platinum product continued to produce dramatic growth. In fiscal year 1999, Platinum transactions increased 53 percent to \$29.5 billion and the transaction size averaged well over \$140 million. These strong results reflect Ginnie Mae's continued commitment to investing in new product development. Our Platinum product represents an increasingly important stream of revenue. Building on several years of favorable results, Ginnie Mae's Callable Trust product began in 1995 and encountered an extraordinarily turbulent market environment in 1999. Callable Trust products guaranteed to \$385 million.

Ginnie Mae Targeted Lending Initiative

In fiscal year 1999, Ginnie Mae continued the Targeted Lending Initiative, which was initiated in fiscal year 1997 to help raise homeownership levels in central city areas. In three years of operation (October 1996-September 30, 1999), the Targeted Lending Initiative has issued \$10.5 billion in securities, representing 112,343

loans in 4,905 pools. The Targeted Lending Initiative provides financial incentives for lenders to increase loan volumes in traditionally underserved areas. By

increasing lender activity in these targeted areas, Ginnie Mae provides families and households with additional opportunities to achieve homeownership.

Under the Targeted Lending Initiative, Ginnie Mae may reduce its guaranty fee by up to 50 percent when approved issuers originate (or purchase) home mortgage loans in one of the designated 72 urban communities around the nation and place them in Ginnie Mae pools. The Ginnie Mae guaranty fee may be reduced by 1 to 3 basis points on a pool, depending on the percentage of unpaid principal balance of eligible FHA-insured

and VA-guaranteed loans in the pool. In fiscal year 1999, 15 additional communities were added as eligible communities. In addition, communities with a significant Native American population also became eligible.

All Ginnie Mae issuers are encouraged to participate in the Targeted Lending Initiative. There is no separate application procedure or pre-approval required. Once a Ginnie Mae issuer has originated or purchased eligible loans, the issuer merely assembles the loans in a pool and submits the pool to Ginnie Mae for the issuance of a security. Ginnie Mae's pool delivery system (GinnieNet) automatically calculates the guaranty fee on the pool for the issuer. This initiative is effective for pools issued on or after October 1, 1997.

Section 184 Native American Home Loan Guarantee Program

HUD's Native American Home Loan Guarantee program (Section 184), administered by the Office of Public and Indian Housing, provides Native Americans with the opportunity to obtain mortgage financing by offering a 100 percent federal loan guarantee to lenders. In support of this Program, Ginnie Mae announced in March 1998 the eligibility of Section 184 loans for pooling into single family Ginnie Mae I and Ginnie Mae II pools. Section 184 loans must be processed through GinnieNET 2020 and guaranteed by the Office of Public and Indian Housing.

Section 184 loans offer the mortgage community (lenders and issuers) a secure means to establish solid relationships with underserved Native American families and communities, and in addition serve as a product for use with Community Reinvestment Act (CRA) lending programs.

Ginnie Mae Audits and Internal Controls

The Office of Finance is responsible for conducting all audits and reviews of Ginnie Mae's contractors. During fiscal year 1999, the Office of Finance managed and coordinated 14 contract compliance audits and internal control reviews of its major contractors. These audits were conducted to determine if the contractors complied with the terms of their contracts with Ginnie Mae. During these audits, verification was made



that the bills were accurate and internal controls were reviewed to ensure that the contractors' current operating procedures minimize risk to Ginnie Mae. Ginnie Mae regularly monitors contractors with identified weaknesses to ensure that the weaknesses are resolved.



These periodic audits and reviews help to protect, safeguard, and improve Ginnie Mae's MBS program. The audits and reviews:

- Enhance Ginnie Mae's ability to monitor its contractors' financial operations;
- Manage risk to Ginnie Mae and protect its assets;
- Strengthen Ginnie Mae and its contractors' internal controls; and
- Strengthen and contribute to Ginnie Mae's financial management performance.

Ginnie Mae Accounting System

The Ginnie Mae accounting system provides the Ginnie Mae Office of Finance with information necessary to maintain the General Ledger. The system consists of a flexible, multiple profit center General Ledger package that allows user-defined statement formats and provides numerous accounting functions, including transaction entering of all cash receipts and disbursements and journal vouchers. This system helped Ginnie Mae comply with legislative requirements and generally accepted accounting principles. Ginnie Mae's financial system is an off-the-shelf general ledger system that operates in a client/server environment. The system is a scalable, easy-to-

use tool that helps to manage Ginnie Mae's accounting and financial reporting needs. It provides Ginnie Mae with the access to mission-critical data necessary to compete in today's global environment. The system not only generates the financial reports, but also allows Ginnie Mae to customize report formats to meet the Agency's analytical requirements.

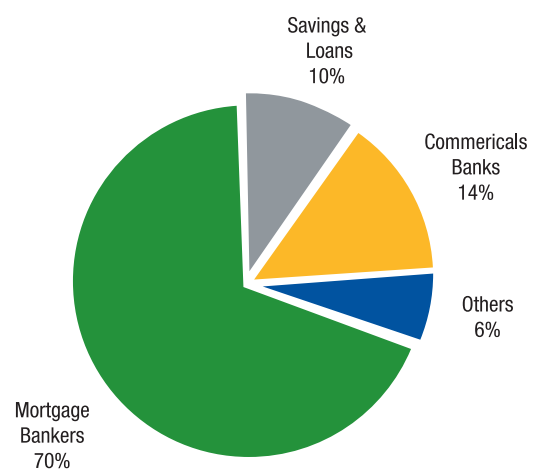
The accounting software system was upgraded, and it now provides the following benefits: produces a larger combination of accounts; provides greater data input capabilities; provides a more efficient system; and unlike the previous system, is now Year 2000 compliant.

V. Program Activities

Ginnie Mae issued \$200 billion in commitment authority in fiscal year 1999, a 54 percent increase over fiscal year 1998. Ginnie Mae guaranteed \$163.5 billion of MBS during fiscal 1999, representing an increase of 19 percent from the prior year. Lower interest rates and a strong housing market in fiscal year 1999 contributed to the continuing strong financial performance.

Of the \$163.5 billion of MBS guaranteed, over \$158.8 billion was backed by single family mortgages, \$4.4 billion by multi-family construction and project loans, and \$300 million by manufactured housing loans.

MBS Program Participants



Delinquency ratios for the MBS pooled mortgages declined in the single family, multifamily, and manufactured housing programs when compared to the previous fiscal year. Ginnie Mae continues to monitor issuers through the Issuer Portfolio Analysis Database System (IPADS) for unusual fluctuations in portfolio delinquency rates. From fiscal year 1998 to fiscal year 1999, the three-month delinquency rate in the single family

sold in two nationally distributed lots grouped by servicing program: Ginnie Mae I and Ginnie Mae II.

Ginnie Mae developed a new pricing model during the year to support its sales program. The model uses a discounted cash flow approach to estimate the market value of servicing rights, as well as the hold value to the government. The model allows Ginnie Mae to simulate different prepayment speed assump-

**Issuer Defaults
By Program Type, By Fiscal Year**
(Dollars in Millions)

Program Type	1999	1998	1997	1996	1995
Single Family	\$108.0	\$8.3	\$350.6	\$60.6	\$201.8
Multifamily	0.0	0.0	0.0	0.0	236.6
Manufactured Housing	0.0	0.3	0.0	0.0	2.0
Total	\$108.0	\$8.6	\$350.6	\$60.6	\$440.4

program decreased from 1.64 percent to 1.52 percent, demonstrating a level consistent with delinquency ratios in past fiscal years. The three-month delinquency rate in the manufactured housing program decreased from 3.52 percent to 3.00 percent. The two-month delinquency rate in the multifamily program decreased from 0.78 percent to 0.58 percent.

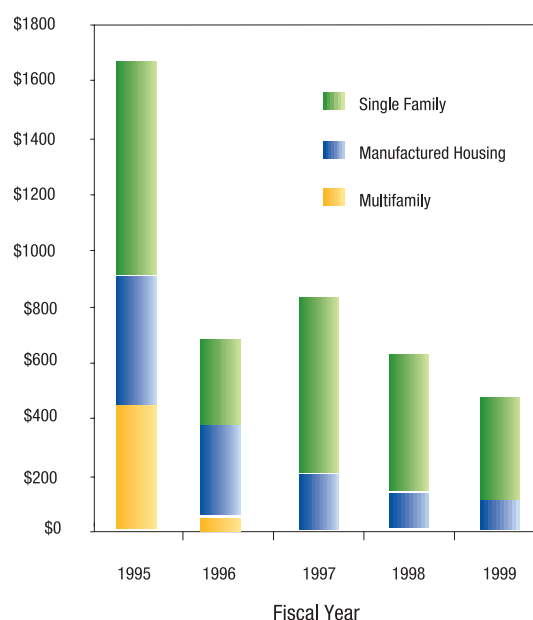
Asset Management

By the end of fiscal year 1999, Ginnie Mae's acquired single family portfolio was \$364 million, a decrease of 24 percent from fiscal year 1998. As shown in the above Issuer Defaults table, Ginnie Mae defaulted one single family issuer in fiscal year 1999 with a principal balance of \$108 million, compared to one issuer default of \$8.3 million in fiscal year 1998. The default and sales activity, combined with normal runoff resulted in a 24 percent decrease in the portfolio. Overall, the single family acquired portfolio represents 0.07 percent of the total single family RPB outstanding for the Ginnie Mae MBS program, compared to 0.09 percent in fiscal year 1998.

On July 1, 1999, Ginnie Mae completed the sale of \$136 million in mortgage servicing rights. The sale included the portfolios of five defaulted single family issuers. The servicing rights were

tions and test the effects of different portfolio stratifications. The manufactured housing acquired portfolio experienced a 21 percent decrease during the year to \$118 million by September 30, 1999. The decrease reflects normal runoff and amortization activity. Overall, the manufactured housing acquired portfolio represents 14 percent of the total manufactured housing RPB outstanding.

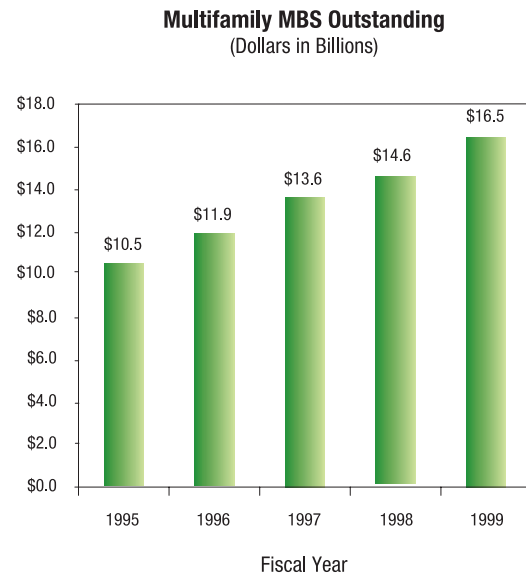
Management of Defaulted Portfolio
(Dollars in Millions)



Since the inception of the Multifamily MBS Program, Ginnie Mae has guaranteed the issuance of approximately \$33.3 billion in multifamily securities. Ginnie Mae's Multifamily MBS Programs experienced a banner year in fiscal year 1999. Issuances of new securities were up, delinquencies were down and, for the fifth consecutive year, there were no issuer defaults. Fiscal year issuances established an annual record and amounted to more than 10 percent of total issuances.

Outstanding securities in the Multifamily Programs increased again by over 13 percent to a record \$16.5 billion. This was a result of the issuance of \$4.4 billion in securities during fiscal year 1999. Commitments issued for Multifamily Securities also increased from the previous year by 55 percent to \$5.4 billion. The ratio of delinquent multifamily loans in Ginnie Mae multifamily pools decreased to 0.58 percent from 0.78 percent the previous year, a 26 percent decline.

With increased promotion of the Multifamily Programs of Ginnie Mae, the percentage of FHA multifamily loans securitized in Ginnie Mae MBS increased from 81 percent in fiscal year 1998 to 98 percent in fiscal year 1999. Multifamily RPB has grown 56 percent over the last five years.





VI. View of the Future

During fiscal year 2000, Ginnie Mae will continue to facilitate increased homeownership levels in urban areas through such programs as its successful Targeted Lending Initiative.

Ginnie Mae continues to implement policies and procedures that improve program efficiency and customer service. Through new product offerings and reduction in guaranty fees, Ginnie Mae continually strives to make its programs attractive to investors in the capital markets. Additionally, Ginnie Mae continues to make organizational improvements in its business through internal and external reviews of its operations and by operating as a customer service driven organization. These efforts will continue to strengthen Ginnie Mae's financial position and ensure its ability to meet its mission.

The incorporation and utilization of technology tools, improvements in service to our clients, and other process and product improvements will remain a management priority into fiscal year 2000. Ginnie Mae will endeavor to face the challenges of the future with confidence and innovative solutions and products, while striving to serve its vital role in the provision of mortgage credit for low- and moderate-income American families.

VII. Management's Discussion and Analysis of Financial Position and Results of Operations

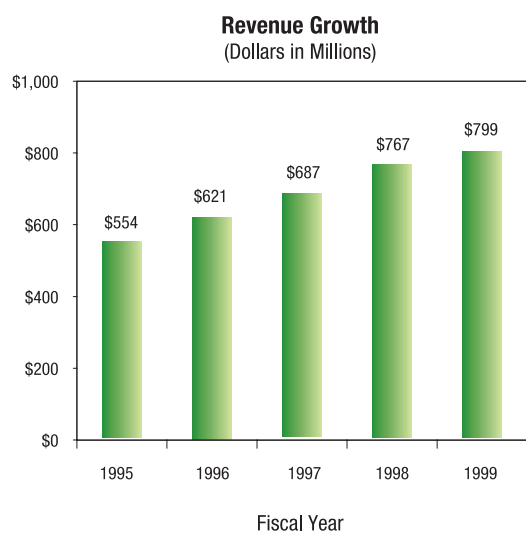
Financial Highlights of 1999

Fiscal year 1999 was another year of very favorable financial achievement marked by increases in both revenues and assets. Ginnie Mae's financial management team reported record net income of \$746.8 million, a 10.7 percent increase from \$674.7 million in fiscal year 1998. Revenues increased by 4.1 percent, to \$798.6 million from \$767.4 million in 1998, and total assets increased 11.9 percent, to \$7.1 billion from \$6.4 billion in 1998. These growth rates are indicative of strengthened financial management and the continued growth in Ginnie Mae's MBS programs during fiscal year 1999.

The combination of favorable mortgage market conditions and strong program management resulted in an increase in the outstanding MBS portfolio, which generated increased guaranty and commitment fee revenue. In fiscal year 1999, MBS program income rose to \$405 million from \$392.3 million in fiscal year 1998. Total expenses as a percentage of total revenues increased moderately from 5.9 percent in fiscal year 1998 to 6.5 percent in fiscal year 1999.

Ginnie Mae issued commitment authority in the amount of \$200 billion, a more than 54 percent increase from the prior year. The \$163.5 billion of MBS issued in fiscal year 1999 resulted in a 18.7 percent increase in MBS issued over the prior year. The outstanding MBS balance at the end of fiscal year 1999 was \$569.6 billion, a 5.0 percent increase over the previous year. Fiscal year 1999 production provided the capital to finance the purchase or refinance of homes for approximately 1.8 million American families.

Ginnie Mae has continued its strong financial performance during fiscal year 1999 and produced additional growth in its revenues. Excess revenues over expenses are invested in U.S. Government securities and provide the capital base to support Ginnie Mae's mission. To date, Ginnie Mae's earnings and fund balance have provided the capital to finance its operations and, as a result, *Ginnie Mae has not needed to obtain funds through Federal appropriations.*



Three-Year Financial Highlights

September 30,	1999	1998	1997
(Dollars in thousands)			
Balance Sheet & Liquidity Analysis			
Funds with U.S. Treasury	\$ 1,210,800	\$ 778,700	\$ 155,800
U.S. Government Securities	\$ 5,778,000	\$ 5,448,300	\$ 5,382,000
Total Assets	\$ 7,123,300	\$ 6,366,400	\$ 5,682,900
Investment of U.S. Government	\$ 6,556,100	\$ 5,809,300	\$ 5,134,600
Total Liabilities	\$ 567,200	\$ 557,100	\$ 548,300
Total RPB Outstanding ⁽¹⁾	\$569,649,659	\$542,206,575	\$530,553,333
LLR ⁽²⁾ & Investment of U.S. Government	\$ 7,059,400	\$ 6,320,500	\$ 5,642,300
Investment of U.S. Government as a percentage of Average Total Assets	97.20%	96.43%	95.75%
LLR & Investment of U.S. Government as a percentage of RPB	1.24%	1.17%	1.06%
Capital Adequacy Ratio ⁽³⁾	1.22%	1.15%	1.05%
Statement of Revenues and Expenses & Profitability Analysis			
Revenues	\$ 798,600	\$ 767,400	\$ 686,700
Excess of Revenue Over Expenses	\$ 746,800	\$ 674,700	\$ 601,200
MBS Program Income	\$ 405,000	\$ 392,300	\$ 353,800
Interest Income	\$ 380,300	\$ 362,700	\$ 318,200
Total Expenses	\$ 51,800	\$ 45,600	\$ 38,700
MBS Program Expenses	\$ 42,500	\$ 36,300	\$ 29,400
Administrative and Other Expenses	\$ 9,300	\$ 9,300	\$ 9,300
Total Expense as a percentage of Average RPB	0.0093%	0.0085%	0.0075%
Provision for Loss as a percentage of Average RPB	—	0.009%	0.009%

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBSs

(2) Loan Loss Reserve (LLR) established to account for probable future losses

(3) Investment of U.S. Government plus Loan Loss Reserve divided by the sum of Total Assets and Remaining Principal Balance

Results of Operations

Ginnie Mae believes that the following will provide the reader with information that is relevant to an assessment and understanding of Ginnie Mae's financial condition and results of operations. The discussion should be read in conjunction with the financial statements and notes thereto. Ginnie Mae's operating results are subject to fluctuation each year depending on the frequency and severity of losses resulting from general economic conditions, mortgage market conditions, and terminating issuers.

MBS Program Income

MBS program income includes Guaranty Fees, New Issuer Fees, Commitment Fees, Handling Fees, and Transfer of Servicing Fees. Guaranty Fees and Commitment Fees comprise over 95 percent of the total MBS program revenues. Guaranty Fees represent income streams earned for providing Ginnie Mae's guaranty of *"the full faith and credit of the U.S. Government"* to MBS issues. These income streams are recognized over the life of the outstanding mortgage-backed securities. Commitment Fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae mortgage-backed securities.

Commitment Fees increased 24.1 percent from \$29.9 million in 1998 to \$37.1 million in 1999. This increase was a direct result of an increase in issuer demand for new commitments. New commitments issued by Ginnie Mae amounted to \$200.0 billion during fiscal year 1999, a 54 percent increase from fiscal year 1998.

Steady growth in the MBS portfolio drives the increase in MBS program income. MBS Guaranty Fees increased 1.7 percent, to \$347.4 million from \$341.5 million in 1998. The Guaranty Fees are collected on the aggregate principal balance of the guaranteed securities outstanding of the non-defaulted issuer portfolio.

Remaining Principal Balance Outstanding of the MBS Portfolio
(Dollars in Millions)



Interest Income

Ginnie Mae funds its investment portfolio through its excess revenues over expenses. As a result, the corresponding interest income has steadily increased over the past five years. For fiscal year 1999, interest income increased approximately 5 percent to \$380.3 million from \$362.7 million in 1998. This increase is directly related to Ginnie Mae's investment strategy and its corresponding increasing investment portfolio. Ginnie Mae invests the excess of its revenues over expenses only in U.S. Government securities, as mandated by the U.S. Treasury.

Multiclass Revenues

Multiclass revenue is part of the MBS program revenue, and it is composed primarily of REMIC and Platinum Program fees and miscellaneous income earned from the Ginnie Mae II portfolio. The amount of multiclass income fluctuates based on market conditions. Ginnie Mae issued over \$29.5 billion in Platinum securities in fiscal year 1999. Fees amounted to \$20.3 million representing a 40 percent increase in fee income. Fees from REMIC and Callable Trusts securities amounted to \$6.9 million on \$19.7 billion in issuance for those products representing an increase of 73 percent in fee income. A portion of the REMIC, Callable Trust, and Platinum Program fees is recognized in the year received and the balance is deferred.

Additional information on REMIC activity is presented under the section entitled: “IV. Ginnie Mae Initiatives-Multiclass Products.”

MBS Program and Administrative Expenses

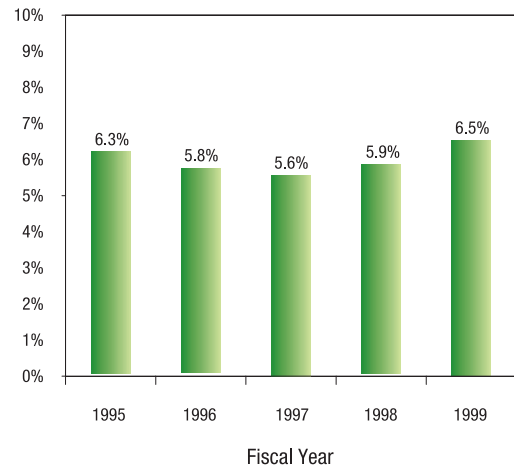
MBS Program and Administrative Expenses are incurred to carry out Ginnie Mae’s programs and initiatives. These costs include contractor services, personnel, compensation, printing, and other administrative functions. MBS Program and Administrative Expenses increased \$6.2 million during fiscal year 1999 to \$51.8 million from \$45.6 million in fiscal year 1998.

The modest increase in expenses is attributable to the cost of launching new products, preparation for the Year 2000 to prevent disruption due to potential Year 2000 induced problems, and the significant increase in program activities. Revenues and MBS outstanding grew at a rate of 4 percent and 5 percent, respectively. Total expenses as a ratio of total revenues increased only moderately from 5.9 percent in fiscal year 1998 to 6.5 percent in fiscal year 1999. Expenses as a percentage of total revenues have ranged over the last five years from 5.6 percent to 6.5 percent. Additionally, MBS Program and Administrative Expenses as a percentage of average RPB grew slightly over the last five years from 0.0090 percent to 0.0093 percent.

Credit-Related Expenses

Credit-related Expenses include Ginnie Mae’s provision for loss and defaulted issuer portfolio costs. The provision for loss is charged against income in an amount considered appropriate to maintain reserves for losses at levels management determines adequate to absorb potential losses from defaulted issuer portfolios and program losses. Based on management’s assessment of reserve adequacy, a provision for loss was not made in fiscal year 1999.

Expenses as a Percentage of Gross Revenues



Liquidity and Capital Adequacy

Financial Models

Ginnie Mae’s Policy and Financial Analysis Model (PFAM) provides information regarding Ginnie Mae’s financial position by estimating current and future cash flows based on econometrically estimated claim and pre-payment rates and a simulation of issuer default behavior. Using the PFAM, Ginnie Mae is able to evaluate the adequacy of its capital under a variety of economic conditions and to understand the financial implications of financial decisions.

In fiscal year 1999, Ginnie Mae made several enhancements to the PFAM. Comprehensive loan level data was obtained from existing FHA, VA, and Ginnie Mae sources and integrated with the most up to date economic and policy forecasts to estimate loan and issuer performance, and forecast Ginnie Mae’s financial position under various scenarios.

With assistance from FHA, Ginnie Mae was able to obtain a detailed segmentation of the loans according to key risk indicators, including loan size and loan-to-value ratios. The loan segmentation was derived from an analysis of historical data, and it enabled Ginnie Mae to accurately map the risk profile of the collateral supporting its guaranteed mortgage-backed securities.

Using a loan level linking approach, 15 million individual loans were matched with their respective issuers. Information on portfolio loans was used to create a risk profile for each issuer and estimate its cash flows. This allowed Ginnie Mae to group issuers according to relative riskiness, based upon expected portfolio performance.

Ginnie Mae has also modified the Scenario Manager of the PFAM to accommodate the Credit Subsidy Module. The modifications allow Ginnie Mae to calculate a credit subsidy rate for future books of business.

Liquidity

Ginnie Mae's role in supporting expanded affordable housing in America through secondary market vehicles is ongoing through the use of the *guaranty of full faith and credit of the U.S. Government*. Thus, these program activities require a degree of liquid assets to further Ginnie Mae's initiatives. These needs are driven by the development of new secondary market vehicles, the timely payment of pass-throughs to security holders, and general operations. Due to successful cash management, program management and commitment to cost containment, *Ginnie Mae has not been required to obtain appropriations or other debt financing sources.*

Composition of Treasury Securities
(Percent of Total)

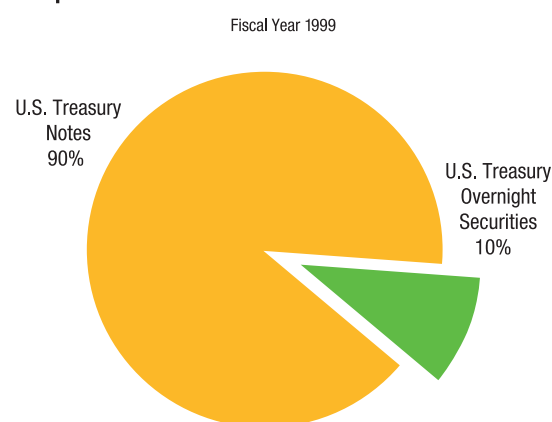
	Fiscal Year	
Maturity	1999	1998
Due within one year	21%	11%
Due after one year through five years	50	51
Due after five years through ten years	29	38

Ginnie Mae's primary sources of cash are MBS and Multiclass Guaranty Fee Income, Commitment Fee Income and Interest Income. As a result of these sources, on September 30, 1999, Ginnie Mae reported funds in the U.S. Treasury of \$1,210.8 million compared with \$778.7 million on September 30, 1998. The increase in funds in the Treasury is influenced by the Credit Reform Act of 1990. This Act requires that Ginnie Mae segregate funds held with the U.S. Treasury between

Liquidating and Financing accounts. Funds received from activity originating prior to fiscal year 1991 are accounted for in the Liquidating accounts, while funds received from MBS fees for activity originating after fiscal year 1991 are maintained in the Financing accounts. For Credit Reform purposes, funds in the Financing account are deposited into an interest bearing account with the U.S. Treasury.

In addition to the funds in the U.S. Treasury, Ginnie Mae's investments totaled \$5.78 billion, compared with \$5.45 billion in the prior year. Throughout 1999, Ginnie Mae used an investment strategy that increased interest income while shortening its average maturity to lower its market risk. Of the \$5.78 billion investment balance at September 30, 1999, \$558.6 million was held in overnight certificates. The balance of the portfolio's maturities are spread over time to ensure that Ginnie Mae has a ready source of funds to meet emergency liquidity needs.

Components of Investment in U.S. Government Securities



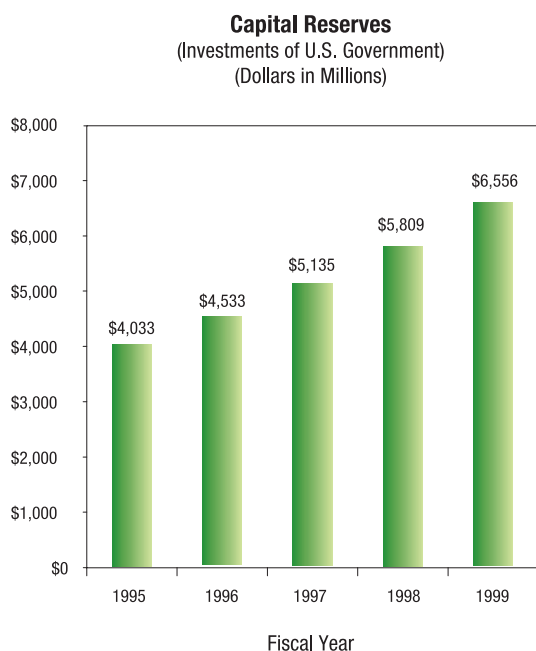
Capital Adequacy

Ginnie Mae's activities involving the guaranty of MBS have historically operated at a profit. Ginnie Mae has never had to exercise its authority to borrow funds from the U.S. Treasury to finance its operations. Ginnie Mae's net income continues to build and strengthen the Corporation's capital base and programs. Ginnie Mae also maintains adequate capital to withstand downturns in the housing market that could cause severe issuer defaults. Ginnie Mae's capital is backed by the *full faith and credit guaranty of the U.S. Government*.

As of September 30, 1999, Ginnie Mae had an Investment of U.S. Government balance of \$6.6 billion after establishing reserves for losses on its credit activities compared with \$5.8 billion as of September 30, 1998. Ginnie Mae's net earnings are used to build sound reserves. Over the past three years, Ginnie Mae has increased its capital ratio (investment of government plus loan loss reserves as a percentage of total assets and RPB) from 1.06 percent to 1.15 percent. To assess the strength of its capital position, Ginnie Mae uses a "stress test" methodology that measures Ginnie Mae's ability to withstand severe economic conditions.

Compliance with the CFO Act

Ginnie Mae has prepared a separate management report in compliance with the Chief Financial Officers Act of 1990 that contains detailed information. It is available upon request from the Ginnie Mae Office of Finance at (202) 401-2064.



Risk Management

Ginnie Mae continues to enhance its automated systems and business processes to increase the efficiency of its operations and to reduce its business risk. During fiscal year 1999, Ginnie Mae continued periodic reviews of all master subservicers to assure compliance with the terms and conditions of their servicing contracts with Ginnie Mae. Additionally, the audits and reviews provided Ginnie Mae with a mechanism for continuing to strengthen its internal controls and minimize risks.



1999 Financial Statements

Balance Sheets

September 30,	1999	1998
(In thousands)		
Assets:		
Funds in U.S. Treasury	\$1,210,800	\$ 778,700
U.S. Government securities-Note B	5,778,000	5,448,300
Mortgages held for sale, net-Note C	6,100	4,900
Properties held for sale, net-Note D	1,100	1,500
Accrued interest and other receivables	100,500	103,600
Advances against defaulted Mortgage-Backed Security pools, net-Note E	26,700	29,400
Claims against HUD/FHA and VA	100	—
Total Assets	\$7,123,300	\$6,366,400
Liabilities and Investment of U.S. Government		
Liabilities:		
Reserve for loss on Mortgage-Backed Securities Program-Note F	\$ 503,300	\$ 511,200
Deferred revenue	36,800	24,000
Deferred liabilities and deposits	1,100	1,100
Accounts payable and accrued liabilities	26,000	20,800
Total Liabilities	567,200	557,100
Commitments and Contingencies- Note I		
Investment of U.S. Government	6,556,100	5,809,300
Total Liabilities and Investment of U.S. Government	\$7,123,300	\$6,366,400

See accompanying notes to financial statements.

Statements of Revenues and Expenses and Changes in Investment of U.S. Government

For the year ended September 30, (In thousands)	1999	1998
Revenues:		
Mortgage-Backed Securities Program income	\$ 405,000	\$ 392,300
Interest income	380,300	362,700
Other income, net	13,300	12,400
Total Revenues	798,600	767,400
Expenses:		
Mortgage-Backed Securities Program expenses	42,500	36,300
Administrative and other expenses	9,300	9,300
Total Expenses	51,800	45,600
Provision for loss on Mortgage-Backed Securities Program-Note F	—	47,100
Excess of Revenues Over Expenses	746,800	674,700
Investment of U.S. Government at Beginning of Year	5,809,300	5,134,600
Excess of revenues over expenses	746,800	674,700
Investment of U.S. Government at End of Year	\$6,556,100	\$5,809,300

See accompanying notes to financial statements.

Statements of Cash Flows

For the year ended September 30,	1999	1998
(In thousands)		
Cash flows from operating activities:		
Interest received	\$ 382,900	\$362,200
Mortgage-Backed Securities Program fees	405,400	390,900
Advances against defaulted Mortgage-Backed Security pools	700	(25,800)
Mortgage-Backed Program losses and expenses	(38,200)	(41,600)
Other income received	26,200	17,200
Administrative expenses	(9,300)	(9,300)
Purchases of mortgages/properties net of disposal	(5,900)	(8,400)
Recoveries from FHA and VA	100	4,000
Net Cash provided by operating activities	761,900	689,200
Cash flows from investing activities:		
Purchase of U.S. Treasury Securities, net	(329,800)	(66,300)
Net cash used by investing activities	(329,800)	(66,300)
Net increase in cash	432,100	622,900
Funds in U.S. Treasury at beginning of year	778,700	155,800
Funds in U.S. Treasury at end of year	\$1,210,800	\$778,700

See accompanying notes to financial statements.

Statements of Cash Flows

For the year ended September 30,	1999	1998
(In thousands)		
Net excess of revenue over expenses	\$746,800	\$674,700
Adjustments to reconcile net excess of revenue over expenses to net cash provided by operating activities:		
Provision for loss on Mortgage-Backed Securities Program	—	47,100
(Increase) decrease in accrued interest	2,600	(400)
(Increase) decrease in advances against defaulted Mortgage-Backed Securities pools	2,700	(300)
Decrease in deposit liabilities	—	(600)
Increase in accounts payable and accrued liabilities	5,200	1,100
Increase in deferred revenue	12,800	4,800
Decrease in Mortgage-Backed Securities Reserve, net of other assets, relating to operating activities	(8,200)	(37,200)
Total adjustments	15,100	14,500
Net cash provided by operating activities	\$761,900	\$689,200

See accompanying notes to financial statements

Notes to the Financial Statements

Note A—Organization and Summary of Significant Accounting Policies

The Government National Mortgage Association (Ginnie Mae) was created in 1968 through amendment of Title III of the National Housing Act as a Government corporation within the Department of Housing and Urban Development (HUD).

The mortgage-backed securities (MBS) program is Ginnie Mae's primary ongoing activity. The purpose of the program is to increase liquidity in the secondary mortgage market and attract new sources of capital for residential mortgage loans. Through the program, Ginnie Mae guarantees the timely payment of principal and interest on securities backed by pools of mortgages issued by private mortgage institutions. The guaranty is backed by the *full faith and credit of the United States Government*. Ginnie Mae requires that the mortgages be insured or guaranteed by the Federal Housing Administration (FHA), the Rural Housing Service (RHS), (formerly Farmer's Home Administration), the Department of Veterans Affairs (VA), or the HUD Office of Public and Indian Housing (PIH).

These MBS are not assets of Ginnie Mae, nor are the related outstanding securities liabilities; accordingly, neither is reflected on the accompanying balance sheets.

Funds in U.S. Treasury: All of Ginnie Mae's receipts and disbursements are processed by the U.S. Treasury which, in effect, maintains Ginnie Mae's bank accounts. For purposes of the Statement of Cash Flows, Funds in U.S. Treasury are considered cash.

U.S. Government Securities: Ginnie Mae classifies its investments in U.S. Government Securities based on its ability and positive intent to hold them to maturity. Therefore, Ginnie Mae's investment in U.S. Government securities is recorded at amortized cost. Discounts and premiums are amortized, on a level yield basis, over the life of the related security.

Mortgages Held for Sale: Mortgage loans held for sale are carried at the lower of cost or fair value, with any unrealized losses included in current period earnings. The related allowance for loss is established to reduce the carrying value of mortgages held for sale to their estimated fair value which is based on the amount Ginnie Mae expects to realize in cash upon sale of the mortgages.

Properties Held for Sale: Foreclosed assets are recorded at the lower of cost or fair value less estimated costs to sell. The related allowance for loss is established to reduce the property carrying value to fair value less costs to sell. Property related expenses incurred during the holding period are included in Mortgage-Backed Securities program expenses.

Advances Against Defaulted Mortgage-Backed Security Pools: Advances against defaulted mortgage-backed security pools represent payments made to fulfill Ginnie Mae's guaranty of timely principal and interest payment to the MBS security holders. Such advances are reported net of an allowance for doubtful recoveries to the extent management believes they will not be recovered. The allowance for doubtful recoveries is estimated based on actual and expected recovery experience and is adjusted for FHA, VA and RHS claims that have been filed.

Reserve for Loss on MBS Program: In the operation of its MBS programs, Ginnie Mae estimates the cost of liquidating its existing portfolio of mortgage servicing rights acquired from defaulted issuers and expected future issuer defaults. Reserves are established to the extent management believes issuer defaults are probable and FHA, VA and RHS insurance or guaranty are insufficient to recoup Ginnie Mae expenditures. The reserves are increased by provisions charged as an expense in the Statements of Revenues and Expenses and reduced by charge-offs, net of recoveries.

Recognition of Revenues and Expenses: Ginnie Mae receives monthly guaranty fees for each MBS mortgage pool based on a percentage of the pool's outstanding balance. Fees received for Ginnie Mae's guaranty of mortgage-backed securities are recognized as earned. Fees received for commitments to guaranty mortgage-backed securities are recognized when the commitments are granted. Ginnie Mae recognizes as income the major portion of fees related to the issuance of multiclass securities in the period the fees are received, with the balance deferred and amortized over the weighted averaged life of the underlying mortgages to match the recognition of related administrative expenses. Losses on assets acquired through liquidation and claims against HUD/FHA and VA are recognized when they occur.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B—U.S. Government Securities

The U.S. Government Securities portfolio is held in special market based U.S. Treasury securities that are bought and sold at composite prices received from the Federal Reserve Bank of New York. These securities are maintained in book entry form at the Bureau of Public Debt. The coupon rates of Ginnie Mae's current holdings range from 5.25 percent to 7.87 percent. The amortized cost and fair values as of September 30, 1999 were as follows:

Dollars in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	\$ 558,600	\$ —	\$ —	\$ 558,600
U.S. Treasury Notes	5,219,400	80,300	6,500	5,293,200
	\$5,778,000	\$80,300	\$6,500	\$5,851,800

The amortized cost and fair values as of September 30, 1998 were as follows:

Dollars in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	\$ 115,300	\$ —	\$ —	\$ 115,300
U.S. Treasury Notes	5,333,000	384,600	—	5,717,600
	\$5,448,300	\$384,600	\$ —	\$5,832,900

The amortized cost, fair value and annual weighted average interest rates of debt securities at September 30, 1999, by contractual maturity date, are as follows:

Dollars in thousands	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	\$1,208,900	\$1,212,000	5.25%
Due after one year through five years	2,872,600	2,895,100	5.66%
Due after five years through ten years	1,696,500	1,744,700	6.04%
	\$5,778,000	\$5,851,800	5.68%

The amortized cost, fair value and annual weighted average interest rates of debt securities at September 30, 1998, by contractual maturity date, were as follows:

Dollars in thousands	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	\$ 628,500	\$ 633,400	4.62%
Due after one year through five years	2,754,800	2,864,000	4.37%
Due after five years through ten years	2,065,000	2,335,500	4.40%
	\$5,448,300	\$5,832,900	4.41%

Note C—Mortgages Held for Sale, Net

Ginnie Mae acquires certain mortgages from defaulted issuers' portfolios to bring the pools into conformity with MBS program requirements. Mortgages ineligible to remain in pools when servicing-rights are sold are acquired by Ginnie Mae. Mortgages held for sale were as follows:

Dollars in thousands	September 30,	
	1999	1998
Unpaid principal balance	\$7,900	\$7,100
Allowance for losses	(1,800)	(2,200)
Mortgages held for sale, net	\$6,100	\$4,900

Note D—Properties Held for Sale, Net

Ginnie Mae acquires residential properties by foreclosure out of the defaulted issuer portfolios in order to comply with MBS program requirements. Balances and activity in the properties held for sale were as follows:

Dollars in thousands	September 30,	
	1999	1998
Cost of properties, beginning of year	\$ 3,300	\$ 4,700
Additions	9,400	16,000
Dispositions and losses	(10,400)	(17,400)
Cost of properties, end of year	2,300	3,300
Allowance for losses and cost to sell	(1,200)	(1,800)
Properties held for sale, net	\$ 1,100	\$ 1,500

Note E—Advances Against Defaulted Mortgage-Backed Security Pools, Net

Under its MBS guaranty, Ginnie Mae advanced \$99.1 million in 1999 and \$127.6 million in 1998 against defaulted mortgage-backed security pools to ensure timely pass-through payments. Recoveries of advances, either from late payment remittances or through FHA insurance or VA guaranty proceeds, were \$96.9 million in 1999 and \$97.8 million in 1998. Advances of \$0.4 million were written off in 1999; there were \$3.8 million of write-offs in 1998.

Unrecovered advances outstanding against defaulted mortgage-backed security pools, net of allowance for doubtful recoveries, were as follows:

Dollars in thousands	September 30,	
	1999	1998
Advances against defaulted pools	\$352,300	\$350,500
Allowance for losses	(325,600)	(321,100)
Advances against defaulted pools, net	\$ 26,700	\$ 29,400

Note F—Reserve for Loss on MBS Program

Ginnie Mae establishes a reserve for losses through a provision charged to operations when, in management's judgment, defaults of issuers of mortgage-backed securities become probable. The reserve for losses is based on an analysis of the MBS portfolio outstanding. In estimating losses, management utilizes a statistically based model that evaluates numerous factors, including, but not limited to, general and regional economic conditions, mortgage characteristics, and actual and expected future default and loan loss experience. Management also considers uncertainties related to estimations in the reserve setting process. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights. As Ginnie Mae's defaulted issuer portfolio decreases, original estimates are compared with actual results over time, and the adequacy of the reserve is assessed and if necessary, the reserve is adjusted. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities. Changes in the reserve were as follows:

Dollars in thousands	Single Family	Multifamily	Manufactured Housing	Total
September 30, 1997	\$196,200	\$56,700	\$254,800	\$507,700
Recoveries	6,000	700	10,200	16,900
Realized losses	(35,100)	(600)	(24,800)	(60,500)
Provision	32,500	—	14,600	47,100
September 30, 1998	\$199,600	\$56,800	\$254,800	\$511,200
September 30, 1998	\$199,600	\$56,800	\$254,800	\$511,200
Recoveries	12,500	—	6,300	18,800
Realized Losses	(10,500)	(5,600)	(10,600)	(26,700)
Provision	—	—	—	—
September 30, 1999	\$201,600	\$51,200	\$250,500	\$503,300

Ginnie Mae incurs losses when FHA and VA insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non-reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

The reserve for losses is relieved as estimated losses are realized. To the extent realized losses differ from those previously estimated, Ginnie Mae may elect to increase or decrease its reserve depending on its assessment of risks and losses associated with probable issuer defaults.

At September 30, 1999, the balances of Ginnie Mae managed portfolios were \$364 million of single family, \$0 of multifamily, and \$118 million of manufactured housing, and in fiscal year 1998, \$478.1 million of single family, \$0 multifamily and \$149 million of manufactured housing.

Note G—Financial Instruments with Off-Balance Sheet Risk

Ginnie Mae is subject to credit risk for financial instruments not reflected in its balance sheet in the normal course of operations. These financial instruments include guarantees of mortgage-backed securities and commitments to guaranty mortgage-backed securities. The Ginnie Mae guaranteed security is a pass through security whereby mortgage principal and interest payments, except for servicing and guaranty fees, are passed through to the security holders, monthly. Mortgage prepayments are also passed through to security holders. As a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk. Ginnie Mae's exposure to credit loss is contingent on the event of non-performance by other parties to the financial instruments. Other than those issuers considered in the reserve for loss on the MBS program (see Note F), Ginnie Mae does not anticipate non-performance by the counterparties.

Ginnie Mae guarantees the timely payment of principal and interest to mortgage-backed security holders should the issuers fail to do so. The securities are backed by pools of insured or guaranteed FHA, RHS, or VA mortgage loans. On September 30, 1999 the amount of securities outstanding which are guaranteed by Ginnie Mae was \$569.6 billion; however, Ginnie Mae's potential loss is considerably less because the underlying mortgages serve as primary collateral and the FHA, RHS, and VA insurance or guaranty indemnify Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty mortgage-backed securities. The commitment ends when the securities are issued or the commitment period expires. Ginnie Mae's risk related to

outstanding commitments is much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of mortgage-backed securities.

Outstanding MBS securities and commitments were as follows:

Dollars in billions	September 30,	
	1999	1998
Outstanding MBS securities	\$569.6	\$542.2
Outstanding MBS commitments	\$ 58.8	\$ 22.2

Note H—Concentrations of Credit Risk

Concentrations of credit risk exist when a significant number of counterparties (e.g., issuers and borrowers) engage in similar activities or are susceptible to similar changes in economic conditions that could affect their ability to meet contractual obligations. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers as noted below as of September 30, 1999:

Dollars in billions	Single Family		Multifamily		Manufactured	
	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance
Largest performing issuers	19	\$390.6	10	\$11.6	1	\$ 0.5
Other performing issuers	250	161.6	67	4.8	5	0.2
Defaulted issuers	8	0.3	—	—	22	0.1

During fiscal year 1999, Ginnie Mae acquired one single family issuer portfolio with a remaining principal balance of \$108 million.

In fiscal year 1999, Ginnie Mae issued a total of \$49.3 billion in its multiclass securities program. The estimated outstanding balance at September 30, 1999 was \$111 billion. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Note I—Commitments and Contingencies

As of September 30, 1999, Ginnie Mae was named in several legal actions, virtually all of which involved claims under the guaranty program. It is not possible to predict the eventual outcome of the various actions; however, in the opinion of management and counsel the resolution of these claims will not result in adverse judgments to such an extent they would materially affect the financial position or results of operations of Ginnie Mae.

Note J—Related Parties

Ginnie Mae is subject to controls established by government corporation control laws (32 U.S.C. 9101 through 9109) and management controls by the Secretary of HUD and the Director of the Office of Management and Budget (OMB). Such controls could affect Ginnie Mae's financial position or operating results in a manner that differs from those that might have been obtained if Ginnie Mae were autonomous.

HUD provides Ginnie Mae, without charge, use of office space and equipment. Ginnie Mae reimbursed HUD \$9.3 million in 1999 and \$9.3 million in 1998 for administrative expenses allocated to Ginnie Mae including payroll and payroll related costs.

Payroll related costs for which Ginnie Mae reimbursed HUD included matching contributions to the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). Although Ginnie Mae funds a portion of pension benefits under these programs, it has no liability for future payments to employees under these programs and does not account for the assets of CSRS or FERS, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management (OPM) and are allocated to HUD. OPM also accounts for the health and life insurance programs for Federal employees and retirees and funds the non-employee portion of the costs of such program.

Cash receipts, disbursements, and investment activities are processed by the U.S. Treasury. Funds in the U.S. Treasury represent cash currently available to finance purchase commitments and pay current liabilities. Ginnie Mae has authority to borrow from the U.S. Treasury to finance its operations in lieu of appropriations if necessary.

Note K—Fair Value of Financial Instruments

The following table shows the fair value of financial instruments to which Ginnie Mae has a contractual obligation to deliver or a contractual right to receive cash from another entity as of September 30, 1999 and 1998:

Dollars in thousands	Fair Value	
	1999	1998
U.S. Government Securities	\$5,851,800	\$5,832,900
Funds in U.S. Treasury	1,210,800	778,700
Advances against MBS Pools	26,700	29,400
Other Assets	106,600	108,500
Unrecognized Financial Instruments	1,161,700	1,007,481
Other Liabilities	63,900	45,900

The fair value of Ginnie Mae's largest asset, U.S. Government Securities, is estimated based on quoted market prices for securities of similar maturity. The fair values of Funds in U.S. Treasury, Advances against MBS Pools, Other Assets and Other Liabilities are not materially different from their carrying values.

Unrecognized financial instruments comprise the net fair value of the fee Ginnie Mae receives for the guaranty of timely payment of principal and interest. The value was derived by discounting the estimated future net cash flows relating to Ginnie Mae guaranteed mortgage-backed securities outstanding. The assumptions and estimates used in calculating the fair value of unrecognized financial instruments are based on management's evaluation of economic conditions and, therefore, are not subject to precise quantification.

These discounted cash flows consist of estimated future guaranty fees, taking into account estimated prepayments, in excess of

- 1) projected losses relating to the MBS program, including projected losses on defaulted pools of mortgage-backed securities, and
- 2) projected administrative expenses. The discount rate approximates an interest rate for risk-free instruments of a tenor and duration similar to the Ginnie Mae guaranty. The fair value of Ginnie Mae's guaranty recognizes the present value of future fees which are not recognized under generally accepted accounting principles since to do so would record revenue prior to realization. The increase in the fair value of unrecognized financial instruments from 1998 to 1999 is primarily attributable to the impact of interest rate volatility.

Ginnie Mae's standing as a Federal government corporation whose guaranty carries the *full faith and credit of the U.S. Government* makes it difficult to determine what the fair value of its financial instruments would be in the private market. Accordingly, the amount Ginnie Mae would realize upon sale of its financial instruments could differ, perhaps materially, from the amounts shown above.

Note L—Credit Reform

The primary purpose of the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. Credit Reform focuses on those credit programs that operate at a loss by providing for appropriated funding, within budgetary limitations, to subsidize the loss element of the credit program. Negative subsidies, calculated for credit programs operating at a profit, normally result in the return of funds to Treasury. OMB specifies the methodology an agency is to follow in accounting for the cash flows of its credit programs.

Ginnie Mae's credit activities have historically operated at a profit. Ginnie Mae has not incurred borrowings or received appropriations to finance its credit operations, nor does it anticipate the need to receive such funding. As of September 30, 1999, Ginnie Mae had an investment in U.S. Government of \$6.6 billion after establishing reserves for potential losses on its credit activities. Pursuant to the statutory provisions under which Ginnie Mae operates, its net earnings are used to build sound reserves. In the opinion of management, Ginnie Mae is in compliance with OMB implementation requirements for the Federal Credit Reform Act, as applicable to government corporations.



2001 M Street, NW, Washington, DC 20036

Independent Auditors' Report

To the Inspector General,
U.S. Department of Housing and Urban Development:

We have audited the 1999 and 1998 financial statements of the Government National Mortgage Association (Ginnie Mae). The objective of our audits was to express an opinion on the fair presentation of Ginnie Mae's financial statements based on our audits. In connection with our audits we also considered Ginnie Mae's internal control over financial reporting and tested Ginnie Mae's compliance with provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

In our opinion, Ginnie Mae's 1999 and 1998 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as applicable to government corporations.

Our opinion on Ginnie Mae's financial statements, our consideration of internal control over financial reporting, our tests of Ginnie Mae's compliance with certain laws and regulations and our responsibilities are discussed in the remainder of our report.

Opinion on Financial Statements

We have audited the accompanying balance sheets of Ginnie Mae, as of September 30, 1999 and 1998, and the related statements of revenues and expenses and changes in investment of U.S. government and cash flows for the years then ended. These financial statements are the responsibility of Ginnie Mae's management. Our responsibility is to express an opinion on these financial statements based on our audits.

In our opinion, the accompanying 1999 and 1998 financial statements present fairly, in all material respects, the financial position of Ginnie Mae as of September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Internal Controls Over Financial Reporting

We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA) and OMB Bulletin No. 98-08, as applicable to government corporations.

Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the AICPA and OMB Bulletin 98-08, as applicable to government corporations.

Although not considered material weaknesses, we noted other matters involving internal controls and their operation during our audit which have been reported to Ginnie Mae's management in a separate letter.

Compliance with Laws and Regulations

The results of our tests, performed as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards and OMB Bulletin No. 98-08, as applicable to government corporations.

Responsibilities

Management's Responsibility. The Chief Financial Officers (CFO) Act of 1990 requires federal agencies to report annually to Congress on their financial status and any other information needed to fairly present the agencies' financial position and results of operations. To meet the CFO Act reporting requirements, Ginnie Mae prepares annual financial statements. Ginnie Mae is an agency operated by the U.S. Department of Housing and Urban Development (HUD).

Management has the responsibility for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing and maintaining internal controls over financial reporting; and
- complying with applicable laws and regulations.

In fulfilling these responsibilities, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control over financial reporting are to provide management with reasonable, but not absolute, assurance that:

- transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with generally accepted accounting principles;
- assets are safeguarded against loss from unauthorized acquisition, use or disposition; and
- transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

Auditors' Responsibility. Our responsibility is to express an opinion on the 1999 and 1998 financial statements of Ginnie Mae based on our audits. We conducted our audits in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 98-08, as applicable to government corporations. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement and presented fairly in accordance with generally accepted accounting principles. We believe that our audits provide a reasonable basis for our opinion. Our audits were not designed to test the requirements of OMB Bulletin No. 98-08 relating to the *Federal Financial Management Improvement Act* (FFMIA), which is not considered applicable at the Ginnie Mae level. FFMIA requirements will be reviewed and reported on at the HUD consolidated level. Our audits were also not designed to test the requirements of the Credit Reform Act of 1990, because Statement of Federal Financial Accounting Standards No. 2, *Accounting for Direct Loans and Loan Guarantees*, have not been considered in preparing these financial statements.

In planning and performing our audit of the financial statements of Ginnie Mae, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

As part of obtaining reasonable assurance about whether Ginnie Mae's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall financial statement presentation; and
- tested compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

With respect to internal control, we obtained an understanding of Ginnie Mae's significant internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls.

Because of inherent limitations in internal control, fraud may nevertheless occur and not be detected. Also, projection of an evaluation of internal controls over financial reporting to future periods is subject to the risk that internal control procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

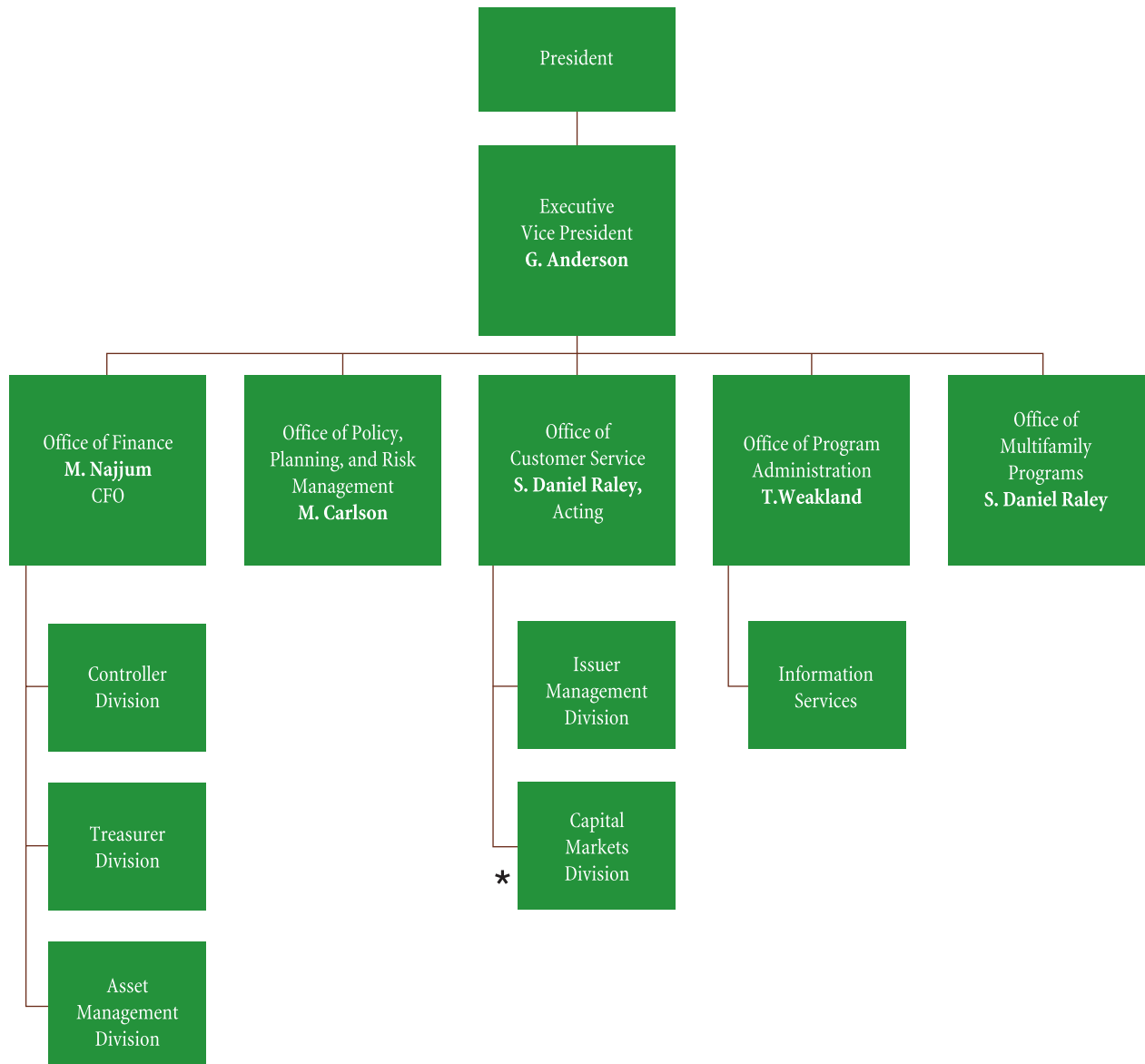
This report is intended solely for the information and use of the HUD Office of the Inspector General, the management of HUD and Ginnie Mae, OMB, and Congress and is not intended to be and should not be used by anyone other than those specified parties.

KPMG LLP

December 22, 1999

Washington, D.C.

The Ginnie Mae Organization



As of September 30, 1999

★ Office of Policy, Planning, and Risk Management has had oversight of Capital Markets Division since September 1998.

U.S. Department of Housing and Urban Development

Andrew Cuomo, Secretary

Ginnie Mae

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Office of the President

Linda F. Benjamin

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Ginnie Mae
U.S. Department of Housing and Urban Development
Washington, D.C. 20410-9000

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